



Fife & Forth Valley
Community Justice Authority

Final Report to the Audit
Committee on the 2012/13
Audit



Appointed Members
Fife & Forth Valley Community Justice Authority
Glebe Hall
Burgh Mews
Alloa
Clackmannanshire
FK10 1HS

30 October 2013

Dear Sirs

We have pleasure in setting out in this document our final report to the Appointed Members of the Fife & Forth Valley Community Justice Authority (“the Authority”) for the year ended 31 March 2013, for discussion at the meeting scheduled for 18 December 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully

Jim Boyle

Senior Statutory Auditor

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We would like to take this opportunity to thank the finance team for their assistance and co-operation during the course of our audit work.

The big picture

The big picture

Anticipated unmodified opinion

- Our work is **substantially complete** and we remain on track to meet the agreed timetable.
- We expect to issue an **unmodified opinion**.
- Our **materiality was £126,800** (2012: £124,811).
- We have identified **no material issues** and have **no material adjustments**.
- Our work has highlighted **no material disclosure deficiencies**.
- We have not identified any key areas of improvement required from our work.
- We did not identify any instances of fraud that have not been reported to you. See Appendix 3 for details of procedures performed in relation to fraud.
- A copy of the representation letter to be signed on behalf of the Authority has been included at Appendix 4 of this report.
- We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised. (See Appendix 2 for further detail).
- We have performed design and implementation testing over controls around our identified significant risks, with no issues noted.

Significant audit risks

Significant Audit Risks

We have no significant findings in respect of the below risks

Revenue Recognition - Completeness of income

- We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code.
- For the Authority, we have considered this risk to be around the completeness of participating council contributions.
- We have agreed funding to signed correspondence from each participating Council and traced all receipts through the bank account with no issues noted.
- We are satisfied that revenue recognition is appropriate.

Management override of controls

- We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed procedures on all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted.
- In addition, we have also conducted a review of all significant accounting estimates in order to assess the reasonableness of management's judgements in relation to these estimates.
- We have not noted any transactions that appear to be outwith the course of normal business.

Comments on *your Annual Report*

Comments on the front half of your Annual Report

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and identify any apparent misstatements. Here we summarise our observations on your response to these areas:

Statement of Assurance on the Systems of Internal Financial Control

Regulations require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. “Delivering Good Governance in Local Government” published by CIPFA and SOLACE recommends that the review be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily.

Authorities that do not voluntarily choose to do this shall include a Statement on the System of Internal Control with their Statement of Accounts.

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the code) issued by CIPFA and LASAAC based on IFRS.

The format and content of the statement is consistent with the requirements of the Code. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.

We have reviewed the Statement on the System of Internal Control and noted that it complies with Internal Financial Control requirements.

Comments on the front half of your Annual Report (Continued)

Remuneration report

Central government bodies are required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts.

The Authority has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Authority's remuneration policy for its senior employees, being the Chief Officer, Convenor and Deputy-Convenor.

We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.

Significant observations on your Financial Statements

Critical accounting judgements and key sources of estimation uncertainty

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

IAS 1 requires disclosure of:

- the critical judgements made in the process of applying accounting policies, which have the most significant effects on the amounts recognised in the financial statements; and
- major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

No critical judgements have been identified by management. It has however been noted that there is a high degree of uncertainty about future levels of funding from local government, but this uncertainty has not been deemed sufficient to provide an indication that levels of service provision will be affected.

Deloitte Response:

We have assessed the above disclosures based upon our review of the accounts and understanding of the organisation and the significant risks we identified as part of our planning process. We have not identified any critical accounting judgements or key sources of estimation uncertainty that require to be disclosed.

Significant observations on your Financial Statements (continued)

Going Concern

“The purpose of the going concern assessment and disclosures should be to provide information to stakeholders about these matters and they should be designed to encourage appropriate business behaviours.”

Lord Sharman November 2011

Relevant disclosures around the basis of preparation have been made within the financial statements. The balance sheet as at 31 March 2013 shows a net asset position of £25,633. Any additional costs payable by the Authority will be reclaimed from the local authorities.

Deloitte Conclusion:

We consider this to be a low risk disclosure for the Authority. Deloitte notes that the Authority is in a net assets position and any additional costs payable by the Authority will be reclaimed from the local authorities.

=> We concur that it is appropriate to adopt a going concern basis for the preparation of the financial statements.

Significant observations on your Financial Statements (Continued)

Related party disclosure

The Code requires reporting of related party relationships, transactions and balances. The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority.

The Authority has processes and controls in place to ensure transactions with these individuals are identified and appropriately approved and disclosed.

Related Party Transactions disclosed by the Community Justice Authority

Other Local Authorities

Requisitions from other Local Authorities have been agreed to the 2012/13 budget and verified as paid through the bank account.

Elected Members and Chief Officers

Payments to Elected Members and Chief Officers are shown in the Remuneration Report. These have been agreed to pay slips.

Best value, use of resources and
performance

Financial performance and outlook

Financial Performance and Usable Reserves Balance

	2012/13 £	2011/12 £
Net (Surplus) or Cost of Services	9,663	0
Financing and Investment	<u>(17,398)</u>	<u>(9,857)</u>
Total Comprehensive Income	(7,735)	(9,857)

- £12,680,667 was spent in the year 2012/13 and a surplus on the provision of services was achieved for the financial year reported in the Comprehensive Income and Expenditure Account of £7,735. The surplus represents the combination of £17,398 interest received on revenue balances netted off against net expenditure of £9,663 for the year which has been taken to usable reserves.
- The Authority's General Reserves balance at 31 March 2013 was £25,633 (31 March 2012: £17,898). The movement is driven the £7,735 surplus (interest income less net expenditure as described above).
- The Authority has an approved Revenue budget for 2013/14 of £12,562,852.

Responsibility statement

Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of Audit Practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on Audit Matters" previously circulated to you and sets out those audit matters of governance interest which have come to our attention during the course of our audit to date. Our audit is not designed to identify all matters that may be relevant to the authority and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the appointed members as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants

Edinburgh

30 October 2013

Appendix 1: Audit adjustments and disclosure misstatements

Audit adjustments : Unadjusted misstatements detail

Uncorrected misstatements

There have been no uncorrected misstatements noted during the process of our audit work.

Corrected misstatements

There have been no corrected misstatements noted during the process of our audit work.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no disclosure deficiencies as a result of our audit procedures.

Appendix 2: Independence and fees

Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
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Fees	The audit fee for the year has been agreed at £4,500 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.
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Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services.
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There were no non-audit services fees charged in relation to Deloitte in the period from 1 April 2012 to 31 March 2013.

Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.
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We are not aware of any relationships which are required to be disclosed.

Appendix 3: Fraud considerations

Fraud considerations

The following represents a note of the fraud enquiries made during the audit:

Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

Two types of intentional misstatements are relevant as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud:

- There is a Fraud Policy in place, which gives advice to staff on their role in the prevention of fraud and establishes the Authority's procedures for prevention, detection and investigation of fraud. This is fully communicated to all staff and regular training is provided.

Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Concerns

As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

No other concerns have been identified during the course of the audit.

Appendix 4: Representation letter

Representation letter

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
United Kingdom
EH1 2DB

30 October 2013

Our Ref: F&FVCJA/2013

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Fife & Forth Valley Community Justice Authority for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Fife & Forth Valley Community Justice Authority as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. We are aware that it is an offence to mislead an Authority auditor. We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (“the Code”) which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Representation letter (continued)

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures.
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Authority or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority’s ability to continue as a going concern . We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We confirm that we consider depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.

Information provided:

9. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Representation letter (continued)

10. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
11. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
14. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.
15. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
16. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.
17. No claims in connection with litigation have been or are expected to be received.

Representation letter (continued)

18. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

20. I confirm that I have appropriately discharged my responsibilities for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Anne Pinkman

Chief Officer

Signed as Responsible Financial Officer and on behalf of the Authority

Appendix 5: Additional resources available to you

How to keep you up to date: Financial Reporting

IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>

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